

# LEGISLATIVE AUDIT COMMISSION



Review of  
Illinois Housing Development Authority  
Year Ended June 30, 2006

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**REVIEW: 4267**  
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
**YEAR ENDED JUNE 30, 2006**

**FINDINGS/RECOMMENDATIONS - 9**

**ACCEPTED - 9**

**REPEATED RECOMMENDATIONS - 6**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 10**

This review summarizes the auditors' reports of the Illinois Housing Development Authority for the year ended June 30, 2006, filed with the Legislative Audit Commission May 8, 2007. The auditors performed a financial audit and compliance examination in accordance with State law and the requirements of the Federal Single Audit Act and OMB Circular A-133. The auditors stated that the financial statements of the Authority are fairly presented.

A bipartisan Board of nine members appointed by the Governor and confirmed by the State Senate governs the Illinois Housing Development Authority. The statutory mandate of the Authority is to increase the production and supply of low and moderate income housing within the State. This goal is accomplished through several programs. *The Mortgage Loan Program and The Affordable Housing Bond Program* provides mortgage financing at rates lower than those available from commercial lenders for housing developments meeting Authority criteria. Through *The Homeowner Mortgage Purchase Program*, the Authority purchases mortgage loans on which it provides below market rate financing from certain institutions, which have made home purchase loans available to eligible borrowers. The Authority also provides technical and marketing assistance to sponsors of housing for occupancy by persons or families of low to moderate income, serves as the State administrator for Federal Low Income Housing Tax Credits, and through its Partnership and Financial Assistance Factor Earnings Program, makes loans from its Administrative Funds at below market rates to such groups.

The Authority also is designated the administrator of the *Illinois Affordable Housing Program*, which is funded by the Illinois Affordable Housing Trust Fund, with funds generated by an increase in the State real-estate transfer tax collected by the Illinois Department of Revenue. The Illinois General Assembly appropriates the funds to the Illinois Department of Revenue. In accordance with State statute, the Authority directs funds to make grants, low or no interest mortgages, or other loans, some with deferred repayment terms, to acquire, construct, rehabilitate, develop, operate, ensure and retain affordable single-family and multi-family housing for low and very low income households. In addition, the Authority has been designated as the statewide administrator of the HOME program. Under this program, \$22.8 million in federal fiscal year 2006 was allocated to be administered by the Authority under the HOME provisions of the 1990 National Affordable Housing Act.

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In early FY02, the General Assembly created the Illinois Affordable Housing Tax Credit Program, which was designed to assist nonprofit organizations to solicit corporate and other donations for assisting with a variety of affordable housing projects, providing the donating entity with a 50% State income tax credit for every dollar donated.

The bonds and notes outstanding as of June 30, 2006 consist of both general and special limited obligations of the Authority. The full faith and credit of the authority are pledged for payment of general obligation bonds and notes. The Authority has the power under the Act to have up to \$3.6 billion of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 2006, amounts outstanding against this limitation were approximately \$1,831 billion.

Some developments financed by the Authority are eligible for federal subsidies for interest and/or rents. The Authority makes mortgage loan commitments after an extensive study of the feasibility of a development.

The Authority's operations are financed by fees and charges paid by borrowers, interest income from investments securities, and other administration fees. No State appropriations are received by the Authority and no State tax dollars are provided directly to the Authority, except as a partial reimbursement of expenses related to the administration of the Affordable Housing Trust Fund.

Except for a portion of the Affordable Housing Trust Fund and HOME Program Funds, all funds of the Authority are held outside of the State treasury in various banks and financial institutions.

Kelly King Dibble was Executive Director of the Illinois Housing Development Authority during the audit period. She became Executive Director on February 27, 2003. The new Executive Director, effective January 19, 2007, is DeShana Forney. She had no previous association with the Authority.

The average number of full-time employees is as follows:

	Fiscal Years		
	2006	2005	2004
<b>Financial and Computer Services</b>	48	47	50
<b>Human Resources, Administration and Legal</b>	26	26	27
<b>Director's Office and Housing Programs</b>	115	120	121
<b>TOTAL</b>	<b>189</b>	<b>193</b>	<b>198</b>

Operating expenses of the Authority in FY06 increased approximately \$4,378,000, as compared to FY05, due almost entirely to an increase in the allowance for estimated losses on program loans receivable.

The Authority's administrative costs include the following employee benefits: \$12,061 for the employee holiday reception; and \$9,048 for employee retirement recognition parties.

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The Authority's current policy allows for amounts to be spent on food and gifts for retirement of individuals with a minimum of 10 years of service.

Appendix A provides selected activity measures of the Authority for FY06 and FY05.

### **Financial Statements**

Appendix B provides the market value of cash and investments at June 30, 2006 and 2005. The Authority's cash and cash equivalents for its proprietary funds and investments for all funds totaled \$719,321,590 compared to \$779,690,216 one year earlier. The preponderance of the investments is fixed rate demand repurchase agreements or United States Agency Obligations.

Appendix C provides a statement of net assets for the Authority as of June 30, 2004 and 2003. The balance sheets stood at \$457,980,719 at June 30, 2006 and \$702,200,026 at June 30, 2005. Net assets of the authority's governmental activities decreased \$244 million due primarily to the transfer of the interest in equity of the Illinois Affordable Housing Program to the State of Illinois. Prior to FY06, the Authority considered the real estate transfer tax used to fund the program to be a derived tax revenue of the Authority with the interest in the equity of the Housing Program recorded in the financial statements of the Authority. Based on statutory amendments to the Illinois Affordable Housing Act during FY06, the Authority believes it is now only the administrator of the Housing Program and the real estate transfer tax and interest in the equity of the Housing Program to be that of the State of Illinois.

Appendix D provides a summary of the Authority's revenues, expenditures, and changes in fund balances for the Authority's governmental or special revenue funds. These funds include the Illinois Affordable Housing Trust Fund and the HOME Program. Revenues less expenditures decreased from \$50,501,362 in FY05 to -\$255,019,191 in FY06. Net assets decreased to -\$260.3 million during FY06. The cause of this dramatic change was the transfer of interest in equity of the Affordable Housing Trust Program to the State of Illinois.

Appendix E provides a summary of the Authority's revenues, expenditures, and changes in fund balance for the Authority's proprietary or enterprise funds. These funds include the Administrative Fund, the Mortgage Loan Program Funds, and the Single Family Mortgage Revenue Program Funds. Net assets were \$16 million higher in FY06 than FY05.

### **Accountants' Findings and Recommendations**

Condensed below are the nine findings and recommendations presented in the auditors' report. Six were repeated from previous audits. The following recommendations are classified on the basis of information in the auditors' report, provided by James J. Kregor, Controller of the Illinois Housing Development Authority.

**Accepted**

- 1. Implement procedures to ensure all maximum per unit subsidy calculations are reviewed by a supervisor and document such review prior to HOME loan funds being disbursed. (Repeated-2004)**

**Findings:** The Authority did not review the maximum per unit subsidy calculation during the year ended June 30, 2006.

During testing of the maximum per unit subsidy special test for the HOME Investment Partnership Program (HOME), the auditors selected all new HOME loan projects that closed during the year totaling \$16,554,100, and noted the Authority used incorrect subsidy limits for one out of eight new loans selected. Upon request, the Authority re-performed the calculation using the correct subsidy limits, and determined the projects were in compliance with the maximum per unit subsidy requirement.

Authority management stated that when the Authority receives financing requests that utilize HOME funds, there is a per unit subsidy review performed by the underwriter to confirm if the request is within the allowable limits. This test is used to determine if the initial request is too large or if additional units must be allocated to HOME financing to justify the financing. If the request is within the limits, then no additional testing is being performed.

**Response:** Accepted. The Authority will implement procedures to ensure all maximum per unit subsidy calculations are reviewed by a supervisor prior to HOME loan funds being disbursed. The Authority during fiscal year 2006 implemented such supervisory review procedures and will continue to work to achieve accurate calculations.

- 2. Implement procedures to ensure match calculations are accurate, the HOME match report is reviewed by a supervisor, and document such review prior to submission. (Repeated-2004)**

**Findings:** The Authority inaccurately calculated and reported its match for the HOME Investment Partnerships Program (HOME).

The Authority uses below market interest rate loans from borrowed funds as its match for the HOME program. The match contribution for loans made with borrowed funds should equal the present cash value of the difference between payments made and payments received, based upon a discount rate equal to the interest rate on the borrowed funds, of new loan funds issued during the fiscal year. The Authority uses an excel spreadsheet to perform this calculation. The Authority is required to submit on an annual basis a HOME Match report, which documents the amount of match taken on each loan.

During testing of the match calculations for the HOME program, the auditors selected nine loans for a total of \$4,441,200 out of \$7,843,506 of loans used and reported as match for the HOME program. One of the nine (11%) calculations used loan terms that did not agree

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to the final loan documents, resulting in an under reporting of match funds totaling \$28,666.

Authority management stated that miscalculations were due to oversight at the time the report was compiled.

**Response:** Accepted. The Authority will implement procedures to ensure that match calculations are accurate, and the HOME match report is reviewed by a supervisor prior to submission. The match calculation will change if the final rate charged differs from that included in the initial underwriting, and this change is not communicated. During fiscal year 2006 the Authority implemented a procedure to ensure that all revisions are communicated, and that a supervisor will review the match report. The Authority reduced the errors on the match report from \$165,258 as noted in the prior audit to \$28,666 in the current audit and will continue its efforts to ensure accurate reporting.

### **3. Implement procedures to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations. (Repeated-2004)**

**Findings:** The Authority does not have procedures in place to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

The Authority receives its Section 8 project funding during the first week of each month, based upon a budgeted amount approved at the beginning of the year by the U.S. Department of Housing and Urban Development. The Authority either applies the amount to the loan balance or transfers the amount to the development during the third week of the month. During testing the auditors selected thirty-five Section 8 project developments receiving federal funds for test work, and noted that the Authority held funds for six to twenty days before the funds were either applied to the loan balances or disbursed to the development. Federal rules have been interpreted to mean that funds should be disbursed within 3-5 business days from receipt.

Authority management stated that the timing of passing through the Section 8 project funding is a long-standing practice that is performed in conjunction with the billing cycle, which is around the middle of the month. Through the billing cycle, a number of reports are generated that document the transfer process.

**Response:** Accepted. The Authority has implemented procedures to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations. The Authority examined the feasibility of accelerating its billing cycle, and, as a result in January 2006

**Accepted – continued**

accelerated its cycle one week in order to further limit the number of days before it transfers federal funds.

The timing of passing through Section 8 project funding is performed in conjunction with the billing cycle, which has been accelerated to the second week of the month. Through the billing cycle, a number of reports are generated that document the transfer process. A large portion of the Section 8 funds are not passed through directly to the recipient, but instead are retained by the Authority to pay the recipient's debt service payments and fund escrow accounts. Any amounts in excess of the debt service and escrow funding requirements are then transferred to the recipient from the 8<sup>th</sup> to the 14<sup>th</sup> day of the month. These amounts, if any, are normally nominal in amount. This process assists recipients to streamline administrative process for the payment of debt service and escrow funding. Section 8 project funds to recipients that do not have loans to the Authority are transferred to these recipients on either the first or second Thursday of each month. The Authority will investigate whether the above processes can be further accelerated.

**4. Establish procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance programs.**

**Finding:** The Authority did not obtain certifications or perform a verification check with the "Excluded Parties List System" (EPLS) that subrecipients were not suspended or debarred from participation in Federal assistance programs for its Section 8 Project-Based Cluster (Section 8) program.

During review of 30 subrecipients of the Section 8 program, the auditors noted the Authority did not include a suspension and debarment certification in its subrecipient agreements. As a result, the Authority did not receive certifications that any of the subrecipients of the Section 8 program were not suspended or debarred from participation in Federal assistance programs. Additionally, the Authority did not perform a verification check with the EPLS maintained by the General Services Administration for any of its subrecipients; however, as a result of our audit test work we noted that none of these subrecipients were suspended or debarred from participation in Federal assistance programs. During the year ended June 30, 2006, the Authority passed through approximately \$148,455,000 to subrecipients of the Section 8 program.

Authority management indicated the lack of certifications was an oversight.

**Response:** Accepted. The Authority will implement procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance programs. As noted above, it was confirmed that none of the subrecipients were suspended or debarred from participation in federal assistance programs. The Authority

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will amend its procedures so that all subrecipients, including those in the Section 8 Program, will be certified as not suspended or debarred, either through a requirement to provide the Authority with a suspension and debarment certification or through the Authority's performing a verification check of subrecipients. The subrecipients in the Section 8 Program have been receiving funds for a number of years and no new funds have been authorized.

### **5. Review the current process for preparing the financial statements and incorporate changes that will allow for the completion of the financial statements in a timely manner so the auditors' testing can be completed well in advance of the financial statement required filing date. (Repeated-2005)**

**Finding:** The Authority does not have an adequate process to ensure financial reporting is completed in a timely manner.

The Authority has a total of approximately \$1,422,700,000 bonded debt outstanding as of June 30, 2006. The Authority's debt covenants require the audited financial statements of the Authority, accompanied by the related report of an accountant, be filed within 120 days of the end of each fiscal year with the trustee and each rating agency of each of its bond issuances. Thus, the June 30, 2006 financial statements were required to be filed no later than midnight on October 28, 2006. In the planning stages of the financial audit, the Authority agreed to provide draft financial statements to the auditors on September 15, 2006 to allow the auditors approximately thirty business days to complete the testing of the Authority's financial information and financial statements. However, the first complete draft of the financial statements was not received until September 29, 2006. An accounting issue was identified related to the financial statement presentation which delayed the finalization of the audit past the 120 day deadline. The independent auditors' report was delivered to the Authority on November 8, 2006.

Authority management stated the process for preparing the financial statements involves numerous reconciliations of the various subsidiary ledgers that account for the different loan program receivables. Additionally, a detailed review of the collectibility of the loan balances is conducted only at year-end to determine the proper reserve balances. This analysis takes a substantial amount of time and effort and is not finalized and approved until the Authority's October board meeting.

**Response:** Accepted. The Authority continues to implement procedures to streamline the preparation of annual financial statements. The Authority in March 2006 reorganized its accounting department to streamline the functioning of the department, achieve greater specialization and to implement a number of procedural controls. In addition, the Authority has continued to improve the linkages of its various sub-systems to its general ledger with the result that monthly financial statements are now being prepared. These enhancements enabled the Authority to improve its timeliness such that the submission of the first draft of the financial statements was ten days earlier than the prior year, although still ten days late. However, the trial balance and portions of the financial statements were made



**Accepted – continued**

available on the due date. In addition, the Authority's operations were severely disrupted during the financial statement preparation period for nearly two weeks due to the relocation of the Authority's offices to different floors. The Authority will continue to further incorporate changes that will allow for the completion of the financial statements in a timely manner so the auditors' testing can be completed well in advance of the financial statement required filing date.

**6. Develop in-depth written documentation of the internal control structure, including flow charts of the internal controls. (Repeated-2005)**

**Finding:** The Authority does not have adequate documentation of its internal control structure.

Organizations are placing greater emphasis on their control environment and the specific controls in place to ensure transactions recorded are complete and accurate. Although control procedures have been developed, the auditors noted the Authority has not formally documented the specific internal controls in place to ensure transactions are recorded in accordance with the applicable financial statement risks and assertions (i.e., completeness, existence, accuracy, valuation, rights and obligations, and presentation and disclosure).

Although employees are familiar with the processes and controls in place, an in depth written description of the Authority's control environment should be developed and should include the internal controls over the key transaction processes including cash receipts; cash disbursements; investment management; payroll; program funding; and lending. Internal control processes should be flowcharted in order to identify how segregation of duties is achieved. This documentation should be reviewed and assessed periodically to identify any changes required to provide an accurate reflection of the current system of internal control.

**Response:** Accepted. The Authority will develop in-depth written documentation of the Authority's internal control structure, including flow charts of the internal controls and risk assessment in every area. The Authority, as part of its program to re-engineer its financial processes, developed documentation, which included flow-charting of many of its financial processes. Accounting Department processes and tasks were also restructured such that all tasks are specifically assigned to certain staff members, along with the backup personnel to perform these, and duties have been separated. The Authority is implementing this recommendation primarily through the use of its Internal Audit Department, which is preparing flow-charts, which document the internal control structure, of every process being audited.

The Authority also documents its internal controls through the preparation of the annual Control Certification Letter and supporting Questionnaire, due May 1, as required by the

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Office of the Auditor General. Although the Authority has begun the project, the recommended project constitutes a major undertaking of the Authority involving the use of considerable resources and will not be completed until at least fiscal year 2007.

### **7. Implement procedures to include a supervisory review of new loans entered into the Benedict system to ensure the loan terms agree to the final loan documents.**

**Findings:** The Authority does not have an adequate process for the establishment of new loans in the loan subsidiary system.

The Authority implemented a loan subsidiary system (Benedict billing and receivable system) in prior years to track loan activity and the outstanding loan balances of its Multi-Family, HOME, and Affordable Trust Fund programs. The implementation of this system was meant to provide Authority management with a formal platform to monitor program loans. The system is updated for program loans issued to or redeemed by developments on an ongoing basis. The system will then automatically generate principal and interest billing statements for distribution to developments based on the input information.

During testing the auditors noted the Authority does not have an adequate process to ensure that new loans are accurately entered into the Benedict system. Specifically, one individual is responsible for entering new loan information into the Benedict system without a supervisory review of the information added or changed.

Authority management stated that the supervisory review of the new loans entered in the Benedict system was addressed during the reorganization plan, but had not yet been finalized during the fiscal year ended June 30, 2006.

**Response:** The Authority concurs with the recommendations to implement procedures to include a supervisory review of new loans entered in the Benedict system to ensure the loan terms agree to the final loan documents. The Authority is currently developing a process whereby loan information to be entered into the Benedict system will arise from, and be reviewed by, the loan origination departments, whose personnel are more familiar with the loan documents and more able to ensure that the loan terms agree to the final loan documents.

### **8. The Authority should:**

- **Implement procedures to ensure all required and scheduled property inspections are completed during the year per the Authority's policy.**
- **Adopt a trend and forecast methodology based upon the historical performance of the portfolio and utilize this analysis when establishing the loan reserves.**
- **Rate loans at inception based on forecasts and later change the rating if anticipated performance does not meet projections.**

Accepted – continued

- Establish a formal loan review function throughout the year to provide senior management an independent assessment of loan policy and procedure compliance.
- Require developers to establish operating and maintenance plans and report the progress on a quarterly basis to the Authority's loan portfolio management.
- Consider expanding the rating scale and formally document the definitions of each grade, taking into account the estimated collectibility of each loan within the grade definitions.
- Perform detailed liquidation analyses supported by financial projections for all D and in some cases C rated properties.
- Establish a formal policy to describe the circumstances under which a property needs an appraisal. Require appraisals for all C and D rated properties, and utilize the appraisals when determining the loan ratings. When appraisals are not feasible, a formal analysis of potential exposure should be documented in the loan files.
- Formally document the consideration of investor support and real estate tax credits within each loan file.
- Implement a tracking system for Single Family loan documents to ensure all have been received by the trustee and have been accounted for. (Repeated-2004)

**Findings:** The key processes used by the Authority to monitor the commercial loan portfolio includes annual/semiannual property inspections, annual independent audit reports, comprehensive annual loan rating reports, and monthly meetings to review problem assets. On an annual basis, the asset manager uses a standard loan rating form, and rates all loans. General reserves are assigned for each loan based on the rating. Specific reserves are generally assigned when management feels that foreclosure and liquidation of the underlying asset will be required, or there is a recognized weakness in the property. The Authority has approximately \$1,645,399,000 of loans outstanding for a total of approximately \$ 962,255,000 subject to the loan loss reserve rating review process at June 30, 2006.

The auditors tested ninety loans in the multi-family, single family, and trust fund programs totaling approximately \$301,105,000 or 18% of the Authority's receivables as of June 30, 2006. During testing of the loans the auditors noted that required and scheduled property inspections were not completed in accordance with the Authority's policy. Two loans totaling approximately \$7,800,000 did not have inspections performed in 2005 and still had not been inspected as of September 30, 2006. In addition, 43 other loans totaling approximately \$152,287,000 had not yet been inspected in calendar year 2006 as of September 30, 2006. The auditors also noted the following:

- The Authority does not utilize a trend and forecast analysis of the reserves.

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- The Authority does not rate loans at inception, but rather gives a period of time for loans to season and judges loans based on historical performance.
- The Authority performs its formal loan review analysis at year end only.
- The Authority does not require operating and maintenance plans or appraisals for all troubled properties.
- The Authority's rating scale for the loans only provides four grades which are intended to reflect the operating condition of the housing project and not necessarily emphasizing the repayment capacity of the borrower.
- The Authority's reporting does not include a detailed liquidation analysis and recovery prospects.
- The Authority has not established a policy for when a property needs an appraisal, and collateral appraisals are infrequent.
- Underlying investor support and real estate tax credits were not considered.
- The Authority does not have a tracking system in place to ensure all receipts from the trustee are for collateral documentation are returned.

Authority management stated that in October of 2006, an external consulting firm was hired to analyze the loan loss reserve methodology, and the recommendations of that report will be considered in conjunction with these recommendations.

**Response:** The Authority will continue to make every effort to ensure that all required and scheduled property inspections are completed during the year per the Authority's policy. The Authority has not been able to complete all planned inspections within the required one-year time frame due to staffing turnover issues, and not due to a lack of procedures to ensure that all required and scheduled property inspections are completed during the year.

The Authority is currently drafting revisions to the Loan Rating and Loan Loss Reserve procedures based on recommendations submitted herein, and from the external consulting audit report received in January 2007. The Authority intends to apply the revised Loan Rating and Loan Loss Reserve procedures for its evaluation of the June 30, 2007 portfolio.

The Authority will investigate the adoption of a trend and forecast methodology based upon the historical performance of the portfolio to utilize when establishing the loan reserves, but believes that this analysis would only be of limited benefit. The Authority loan portfolios differ materially in their nature and vary in their age and ultimate maturities.

The Authority concurs with the recommendation to rate loans at inception, and will base the ratings on the initial underwriting of the loan to be made and also incorporating a new set of loan rating criteria that the Authority is currently developing.

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The Authority concurs with the recommendation to establish a formal loan review function throughout the year to provide senior management an independent assessment of loan policy and procedure compliance. The Authority also contracted with an outside firm to provide an independent assessment of loan policy and procedure compliance. This assessment has been completed and the Authority is in the process of implementing similar recommendations from this assessment.

The Authority does have an existing monthly process in which problem loan situations are reviewed and acted upon. Results are reported to its management. The Authority during FY06 adjusted its loans loss reserves on two occasions to reflect these reviews.

The Authority concurs in principle with the recommendation to require developers to establish operating and maintenance plans and report the progress on a quarterly basis to the Authority's loan portfolio management. The Authority, for its first position loans, continuously collects operating and maintenance information from developments through its annual and periodic inspections. In addition, budgets, audited financial statements and monthly operating reports/tenant selection plans are reviewed. If problems are noted, the Authority requests that the development management prepare plans to correct the situation noted. The Authority will take measures to document these requests, plans and the progress made towards their successful plan implementation. The Authority's agreements for loans in which the Authority has a subordinate position, however, do not require the submission of such reports, and the Authority, as a result, may not be able to obtain such reports.

The Authority concurs with the recommendation to consider expanding the rating scale and formally document the definitions of each grade, taking into account the estimated collectibility of each loan within the grade definitions. The Authority is in the process of developing such a rating scale.

The Authority concurs with the recommendation to perform detailed liquidation analyses supported by financial projections for all D and in some cases C rated properties. However, the development of a new rating scale, as discussed above, likely will change the applicability as to which loans would be subject to such an analysis.

The Authority concurs with the recommendation to establish a formal policy to describe the circumstances under which a property needs an appraisal. The Authority is currently ordering appraisals for D rated properties in which the Authority has a significant financial position in a primary loan position and in some instances for the Authority's subordinate loans. These appraisals are being utilized when considering the loan loss reserve pertaining to these properties.

The Authority concurs with the recommendation to formally document, when applicable, the consideration of investor support and real estate tax credits in each loan review file, and will also incorporate these factors in the development of its new rating system.

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The Authority concurs with the recommendation to implement a tracking system for Single Family loan documents to ensure all have been received by the trustee and have been accounted for. The Authority has recently implemented such a system that will enable it to compare the Authority's and the trustee's records of documents sent by the Authority.

**9. Implement procedures to ensure the Office of Internal Audit conforms with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. Further, the chief internal auditor should implement procedures to ensure the audit plan is properly approved by the chief executive officer prior to the beginning of the fiscal year, and also implement procedures to ensure all major systems are reviewed at least once every two years.**

**Findings:** The Authority's Office of Internal Audit did not perform auditing procedures in conformity with International Standards for the Professional Practice of Internal Auditing, and did not comply with the Fiscal Control and Internal Auditing Act of the State of Illinois.

During FY06, the Authority's Office of Internal Audit (OIA) conducted a quality assurance self-assessment which was validated by an independent external party. The final report indicated several findings as follows:

- No documentation that the audit charter was presented to the Board.
- No policies or procedures for documenting independence, continuing professional education or internal quality assessment.
- Workpapers were not complete or contain evidence of review.
- A two-year audit plan was not approved by the Chief Executive Officer prior to the beginning of the fiscal year.
- All major systems of internal accounting and administrative control were not reviewed at least once every two years.

Authority management stated that staffing shortages led to the deficiencies in the internal audit department. Without performing internal audits in accordance with professional standards and without completing audits timely in accordance with an approved audit plan, the Authority may fail to detect weaknesses in its internal control in a timely manner.

**Response:** The observations and findings presented in the auditor's report were that of an independent external validator conducting a required peer review, and were based upon a questionnaire completed by the Authority's Chief Internal Auditor.

The Authority concurs in principle with the recommendations that the Authority implement procedures to ensure the Office of Internal Audit conforms with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and that the chief internal auditor should implement procedures to ensure the audit plan is properly approved by the chief executive officer prior to the beginning of the fiscal year, and also

**Accepted – concluded**

implement procedures to ensure all major systems are reviewed at least once every two years.

A number of the recommendations and deficiencies cited involve practices that the Authority already follows but has not documented. These include the documentation that the audit charter was presented to the Board (the Authority's chief internal auditor reports to the Authority's Audit Committee, which is comprised of Board Members), the disclosure of engagement basis impairment of independence or the requirement that internal auditors refrain from assessing specific operations for which they were previously responsible (the Authority's internal auditors for the past eleven years were hired from outside the Authority and never have had any operating responsibilities), and documentation of various existing procedures in the procedure manual.

In addition, it has not always been possible to include supervisory review of auditor work papers because at times the Authority employed only one internal auditor.

The Authority's chief internal auditor is addressing the various documentation issues noted and will present these to the Authority's Audit Committee, executive director, deputy executive director and chief financial officer for approval. The Two Year Audit Plan, 2007 Internal Audit Budget and the Internal Audit Policies and Procedures Manual were presented to and approved by the Authority's audit committee at the committee's March 16, 2007 meeting.

**Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies, "Involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make "quick purchases", including but not limited to items available at a discount for a limited period of time.

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

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During FY06, the Authority filed one affidavit totaling \$358,995.00 for window maintenance at a housing development owned by the Authority.

**Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time. In July 2006, the Illinois Housing Development Authority reported it had eight employees assigned to locations other than official headquarters.